The Importance of Financial Reporting and Affecting Factors on It

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Abstract

Financial reporting purposes stem from information needs and demands of outside the organization users. The main goal is economic effects of events and financial operations on the status and performance of the business unit for help to foreign entities and financial decision making in connection with the business unit. This research deals to investigate the relationship between the quality of financial reporting and investment efficiency. Expected higher quality of financial reporting improve investment performance by reducing information asymmetries between business unit and external suppliers. Quality of financial reporting can improve investment efficiency from two ways : First, through reducing information asymmetries between company and investors, thus reduce financial costs. Second, through reducing information asymmetries between investors and managers, thus reduce monitoring costs and improving project selection.

Keywords : *Quality of Financial Reporting, Assess of Financial Reporting Quality, Users' Needs, Investor Protection / Stockholder Protection*

Introduction

Nowadays, accounting information systems played very important role in organizations' active flow and in complex economic environment are responsible an important task. Many economic decisions adopted based on information obtained from these systems (Biddle Et al. 2011). Major contribution of the Securities Exchange is dedicated to buy and sell shares of companies and it can be affected by accounting information and figures. Any investigation in the field of impact mode of accounting information on broad range of stakeholders decision makers helps to better understand how role of information and necessity their better disclosure (Jabbarzadeh Kangarodi,& Motevaseli 2011). Attention to prepared information quality has special necessity for these two groups. Investment is allocated substantial volume from financial research. Some of these studies have been seek to determine the optimal and thereby determine the most efficient level of investment. Because, investment efficiency is requires that on the one hand, be prevented consumption of resources performance investment more than desirable in activities, on the other hand, resources be guided towards activities that has more need to investment. (Cao Ying Et al. 2011)

Previous Research

1. **Relationship between accruals quality and cost of capital in Iran**
   Rasaeiyan and Hosini 2008
   The results show that capital cost of company isn't affected accruals quality and its associated components. In other words, can't be accept that there is significant difference between capital cost of company with poor and lower accruals quality compared with companies with good and appropriate accruals quality.
2. **Relationship Transparency in Financial Reporting with Tax Reporting**
   Samadi Lorgani 2011
   The results of the research shows there is a positive relationship between tax reporting and transparency in financial reporting. So that with preparation of tax reporting to accompanying financial reporting will provide transparency of financial reporting largely.
3. **Effects of accounting conservatism**
   Ball Et al. 2000
   The results show that accounting conservatism is cause the value of information and increase the quality of financial reporting.
4. **Relationship between Capital cost with financial reporting quality**
   Patacharia Et al. 2003
   This research in the 34 countries studied shows that cost of capital has significant relationship with three criteria of financial reporting quality (Lack of profit smoothing, avoiding losses and profit conservatism) and this relationship isn't necessarily direct.
5. **Reviews pricing Method of Accruals Quality**
   Francis Et al. 2005
   The results show that whatever accruals quality of companies is lower, cost of debt and capital is higher.

Model of Research

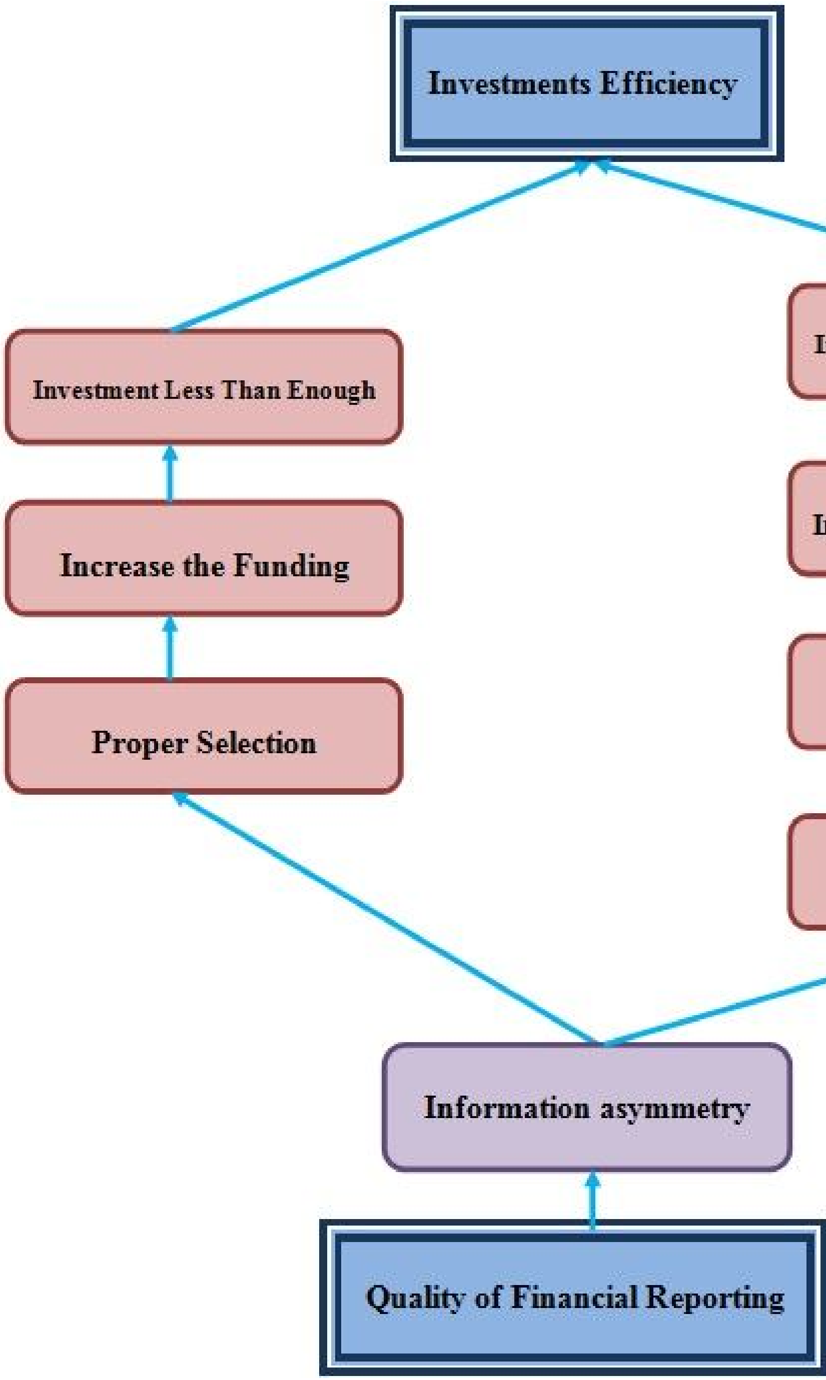

Figure 1 : The Relationship Between Quality of Financial Reporting and Investment Efficiency

Quality of Financial Reporting

In the theoretical framework of financial accounting that is determines of financial reporting purposes, special attention has been paid to cash flows and possible to its predict. In the Statement of Financial Accounting Concepts of Financial Accounting Standards Number One is expressed one of the objectives of financial reporting is providing information that assist investors, creditors and other actual and potential users in estimate amount of time and risk of future receiving. Theoretical foundations reviews and financial reporting purposes is expression this topic that one of the objectives of financial reporting is help to investors and creditors for predict of future cash flows. (Gilaninia Et al. 2012)

Assess of Financial Reporting Quality

In the report 1999 of Blue Ribbon Committee about improving the effectiveness Audit Committee of the companies proposal No. 8 as follows :

> *The Committee recommends that auditing standards require independent auditors that deal discuss their judgments about the quality used accounting principles in the preparing the financial statements of the company with audit committee. Discussion should be include issues such as transparency of financial disclosure and degree of aggressive (optimism) conservative (pessimism) principles and accounting estimates and other important decision of management that used in the preparation of financial statements and has been investigated by independent auditors. This requirement should be written such that encourage free and open discussions an avoid the standard and non-flexible tongue.* (Balakrishnan Et al. 2011)

Different Approaches For Assessment of Financial Reporting Quality

These approaches be divided to two groups:

Approach of users' needs: It has focus on issues related to evaluation.

Approach of investor protection / stockholder protection: It has emphasizes method of corporate governing and stewardship. (Dechow Et al. 2009)

Users' Needs

In the this group, quality of financial reporting determined based on usefulness of financial information for users. The theoretical framework of Financial Accounting Standards Board is prototype of this model. Board in the conceptual statements argues that quality should be defined in terms of the overall objectives of financial reporting, namely provide useful information for users order to investment and credit decisions and like it (Chen Et al 2011). According to Board model, qualitative characteristics is including be relevance (Predicted value, the value of approved and timeliness) be reliably (Handling, faithfully and impartially stated) consistency and be comparable. Board acknowledges that it is a subjective evaluation and often must be balance between be relevance and be reliability. (Hope Et al. 2011)

Investor Protection / Stockholder Protection

In the this group, quality of financial information be defined mainly in terms of full and fair disclosure for shareholders. Fundamental objective profit management plan is investor protection / stockholder protection that declared by Levitt committee chairman, Securities and Exchange in America and it was entered into force. In this context, quality of financial reporting is complete and transparent financial information that are barrier of confusion or obfuscation for users. (Klai & Omri 2011)

Factors Associated With Reporting Quality Assessment

Be Relevance / Predictive Value / Profit Continuing

This features has focus on distinction between profit components from benefit that expected has continued in future.

Be Relevance / Predictive Value / Disaggregated Information

This feature has attention to this topic that how information of company trade parts allows to investor will have better understanding from future of the company.

(Beatty Et al. 2010)

Be Relevance / Accreditors Value

It has focus information usefulness in the past recounted.

Be Relevance / Timeliness

This feature which implies that offered information before be irrelevant.

Be reliably / Handling

The focus of this property is on the accuracy of estimates use, reliance on the assumptions, ability to measure and quantify and also level of evidence and documents supporting.

Be reliably / Be Complete

The focus of this feature is on the comprehensiveness, balance, scope and transparency.

Be reliably / Content

This feature in the accounting literature is called honestly express and its focus is on adaptation of financial information with reality, events content reflection and describe of transactions economic fundamentals.

Be reliably / Neutrality

It feature has emphasis on objectivity and balance.

Be Comparable

This feature has emphasis on using same method of accounting for similar transactions and events and also different ways for events and dissimilar transactions.

Consistency

This feature has emphasis on the uniformity and lack of methods and policies changed in various periods.

Transparency

This feature has emphasis on the organization understandability and completeness of information.

(Feng Et al 2010)

Investment Efficiency and Basics of Investing Less and More Than The Limit

According to neoclassical economic literature efficient market by timely and adequate financing, projects with a clear and positive vision makes corporate managers so when the return rate investment will be 0 , attempt to investments. Hence, should not be seen relationship between internally free cash flows and investment. The first issue, capital rationing is that created due to the absence of information asymmetry between managers and investors. The second issue arises from problems associated with agency. Namely when managers instead obtain higher yields are following their own personal interests. (Armstrong Et al. 2011)

Information Asymmetry

Information asymmetry between investors be lead to more conservative in financial reporting. Conservatism reduces managers ability and motivation in manipulation of accounting information, and thus reduces agency costs arising from information asymmetry. (Ma Tao 2012)

Conclusions

In the theoretical framework of financial accounting that is determinant of the financial reporting objectives and pay special attention to cash flows and the ability its predict. In the Statement of Financial Accounting Concepts of Financial Accounting Standards Number One is expressed one of the objectives of financial reporting is providing information that assist investors, creditors and other actual and potential users in estimate amount of time and risk of future receiving. Approaches of assessment of financial reporting quality be divided to two groups approach of users' needs and approach of investor protection / stockholder protection. Approach of users' needs has focus on issues related to evaluation. Approach of investor protection / stockholder protection has emphasizes method of corporate governing and stewardship.Factors associated with reporting quality assessment are include be relevance / predictive value / profit continuing, be relevance / predictive value / disaggregated information, be relevance / accreditors value, be relevance / timeliness, be reliably / handling, be reliably / be complete, be reliably / content, be reliably / neutrality, be comparable, consistency, and transparency.

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We Thank All Those Who Have Helped Us In This Study :

Dr.Mohsen Mohammad Noorbakhsh Langeroodi, Dr. Mahmood Samadi Largani, Dr. Abbasali Daryaei, Tonkabon Novinhesab Accounting Institution staff, Dr. Ehsan Koozegar, Dr. Ebrahim Chirani, Ghasem Asgarzadeh Baltork, Meysam mohammad mohtasham, Ebrahim Mohammad Mohtasham, ,Yazdan Jamalzadeh, Seyed Morteza Mortazavi, Hoseyn Jahangiri Koloori, Samira Lazarjani, Maryam Zoodranj Nodehi, Afsaneh Taslimi Nodehi.